THE CITY OF ASHEVILLE

STAFF REPORT

Council Meeting Date: May 11, 2021

Subject: Water Resources Fees and Charges for 2021-22 Fiscal Year

Staff Resource(s): Tony McDowell, CFO, Finance & Management Services Director
David Melton, Water Resources Director

Action Requested: Adoption of an ordinance establishing Water Resources fees and charges for Fiscal Year (FY) 2021-22.

Background:

- Fees and charges fully fund the Water Resources Department functions.
- The Department does not receive any funding from the General Fund.
- In 2018 the North Carolina Supreme Court issued an opinion in the case of Quality Built Homes Inc. v. Town of Carthage.
- In this opinion the Court determined that cities were not permitted to charge water and sewer "impact fees."
- Thereafter, law firms began filing lawsuits against cities throughout the State who had charged these fees in recent years.
- Asheville was also named in two class action lawsuits based upon its Capital Improvement Program (CIP) Fee for water service.
- These lawsuits were settled without any admission of liability by the City.
- The settlement, however, included an agreement to discontinue the CIP fee at the beginning of FY 2020-21.
- The financial impact of this agreement was approximately $2,100,000 for settlements, and approximately $7,500,000 in annual revenue from the CIP fee.
- Water Resources has averaged reinvesting approximately $11,000,000 annually over the past three years in capital improvement projects.
- Loss of the CIP fee revenue has a direct impact on the Department's ability to continue reinvesting in the sustainability of the water system.
- Loss of the CIP fee also impacts the revenue coverage ratio that debt rating agencies, such as Standard & Poor's and Moody's, use to evaluate the credit worthiness of the water system.
- The loss of annual revenue and the impact on the ability to reinvest in the water system necessitated a rebuild of the current Water Resources rate model.
- Raftelis Financial Consultants, Inc. was secured to perform the rebuild of the rate model, which was completed earlier this year.
- Attached to the staff report is an overview of the rate model realignment proposal for the various customer classes.
- The proposed rates for FY 2021-22 are slightly higher than current charges, but are less than customers were charged in FY 2019-20 prior to the lawsuit settlements.
- Staff will work with the consultants from Raftelis to refine rate realignment recommendations for Council consideration in future years, which will allow the system to meet its financial requirements while continuing to evaluate the differential between the residential and commercial customer classes.

Committee(s):

- Finance & Human Resources Committee - April 21, 2021 - unanimously recommended to move forward to full Council.

Pro(s):

- Provides an opportunity to recover the cost of services from those who directly utilize or benefit from the service.
- Provides the revenue to continue much needed reinvestment into the water system to maintain sustainability.
- Provides required debt coverage ratios and credit ratings.
- Allows staff to begin communicating fee changes to customers and stakeholders so they are aware of changes prior to the effective date.

Con(s):

- A small increase to current annual costs to customers.
- Additional customer rate increases will likely be required in future years.

Fiscal Impact:

- The bi-monthly impact on the average residential household is shown below. As noted above, detail for all customer classes is included as an attachment to this staff report.

2020 including CIP charge	2021 without CIP charge	2022 proposed fees & charges
$65.38	$56.86	$63.29

***3.2% Decrease from 2020 to 2022**

Suggested Motion:

- Motion to approve an ordinance amending the fees and charges manual for Fiscal Year 2021-22.

Attachments:

- Water Fee Summary
- Water Rate Model Details
- Ordinance

Water Usage Fees (Water Services Fund)

Description: Water Department fees assessed for water use based on cubic feet (CCF) of water used (1 CCF = 748 gallons) for all residential, commercial, and manufacturing locations as well as the monthly fee established for all accounts.

Type of Change: Restructuring

Background:

- Proposed changes will ensure that the water system and infrastructure can be adequately maintained, minimizing the chance of future water service disruptions.
- Increased rates will begin to recoup revenue from the Capital Improvement Fee that was discontinued in FY21.
- Revenue generated by these proposed changes will provide sufficient resources to meet operating and capital needs and to meet rating agency debt coverage ratios as recommended by the City's financial advisors and Water Resources rate model consultants.

Customer: Owners or occupants of all residential, institutional, educational, assembly, or multi-family residential occupancies that are connected to the Asheville water system pay this fee. Generally, water utility charges to customers will be higher than in the current fiscal year (FY21), but lower than in FY20 when the Capital Improvement Fee was still charged.

Service Impact: The proposed fee change would allow the City of Asheville Water Resources Fund to receive revenues comparable to those received before the removal of the Capital Improvement fee. These estimated future revenues will permit system expansion and address system needs.

Revenue Impact: The proposed changes are expected to increase revenues by about $3.5M and slowly increase the fee over time to lessen the burden on customers as the total revenues return to FY20 levels.

Staff Recommendation: Approve fee changes effective July 1, 2021, with the first revised bill occurring on September 1, 2021, to ensure that only services at the new rate are being billed.

ORDINANCE NO. _____

ORDINANCE ADOPTING THE FISCAL YEAR 2021-22 WATER RESOURCE FEES & CHARGES

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF ASHEVILLE THAT:

The attached Fiscal Year 2021-22 Water Resources fees and charges, attached hereto and made a part hereof, be adopted.

That this ordinance shall be in full force and effective upon July 1, 2021.

Read, approved and adopted this 11th day of May, 2021.

_____ _____

City Clerk Mayor

Approved as to form:

_____

City Attorney